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SUBJECT: OMV says TGI, Not Turkey, Is Chief Worry For
Nabucco

REF: A) Vienna 1819; B) Vienna 1733; C) Vienna 1710; D)
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¶1. (SBU) SUMMARY: The head of OMV's gas business, Werner Auli, told us December 11 that TGI, not Turkey, has become the main obstacle to moving ahead with the Nabucco gas pipeline. Expressing confidence that a deal with Turkey would be forthcoming, Auli fretted that "if Azerbaijan sells its gas to TGI, then Nabucco is dead." With respect to the Baumgarten physical hub and the Vienna-based trading exchange, he argued that Gazprom is slowly coming to understand the advantages of a dense market for natural gas, rather than one dominated by a few big contracts. END SUMMARY.

¶2. DCM and Emboffs met December 11 with OMV board member and gas chief Werner Auli for an update on the Nabucco pipeline and a briefing on the Central European Gas Hub (CEGH) trading platform -- a software partnership with Gazprom that is likely to evolve into a full-fledged energy/financial exchange (see ref B).

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TGI is Biggest Threat to Nabucco; Moment of Truth Soon
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¶3. (SBU) Much more than in our previous meetings, Auli characterized competition for Azeri gas between TGI and Nabucco gas as a zero-sum game. TGI is competing for the same limited quantities of Azeri gas as Nabucco, and Auli stated bluntly: "If Baku sells Shah Deniz II gas to TGI, Nabucco is dead" for the foreseeable future, since it will not have its minimum start-up volume of 7-8 bcm. There have been hopeful signs regarding Turkmenistan (ref C), but Turkmen gas would come later (if at all) and piggy-back on Azeri infrastructure. While expensive, Shah Deniz II represents the only serious Western-backed gas supply project in the Caspian region, so whichever pipeline (TGI or Nabucco) gets its first 8 bcm will survive, he said. Auli wondered aloud where the USG is really putting its chips, since USG reps are supporting both TGI and Nabucco.

¶4. (SBU) In response to DCM's question about transit issues with Turkey, Auli was optimistic. The Turkish government, he said, had given increasingly clear signs of flexibility. He thought Nabucco consortium assurances that, in the event of a supply crunch in Turkey, gas could be sold "west-east" back to Turkey, had helped allay Turkish anxieties. Auli also opined that the Turks are seeing more clearly how conclusion of Nabucco will help them attract significant foreign investment.

¶5. (SBU) Timing/Handling Issues. Auli said the Nabucco launch decision will come in the next 2 to 4 months, once the Azeris decide who gets Shah Deniz II gas. Baku appeared to be putting off its decision for the moment but, in Auli's view, is likely to decide early in the new year. Auli said the Azeris continue to complain that "Europeans speak with many voices," whereas Russians and Chinese present unified fronts. On a similar note, he cited Turkmen President Berdymuchammedow as recently saying the Turkmen are bewildered by the onslaught of European visitors who arrive with a panoply of ideas and interests. The damaging rivalry between TGI and Nabucco epitomizes Europe's inability to sort out competing interests and perspectives, Auli concluded.

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Hopeful on Iraqi Gas Long-Term
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¶6. (SBU) Auli noted that OMV is in talks with Shell and has reason to hope that gas from Iraq can flow to Europe in about ten years -- i.e. the Nabucco second phase. He stressed, however, that Iraq will not/not be a factor in Nabucco's launch decision.

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Trading platform: Leading Gazprom Towards a Market Approach
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¶7. (SBU) On CEGH, the nascent gas trading platform, Auli claimed that OMV is slowly convincing Gazprom stakeholders of the utility of a market-based approach -- a dense

network of many traders -- rather than relying solely on long-term supply contracts with a few big partners. "Right now, maybe 1,000 of Gazprom's 400,000 people understand this," but Gazprom leadership is among those slowly seeing the light.

¶8. (SBU) The Vienna-based trading platform -- which we observed in some detail -- currently serves mainly as a nerve center to match wholesale supply and demand with pipeline capacity in real-time, but covers less than a quarter of the gas flowing through Baumgarten. With restructuring in 2009, CEGH will seek licenses to operate as a fully-fledged exchange offering futures and other financial mechanisms while continuing to balance spot-market supply and demand in the region. Auli believed that the Russians plan to launch their own gas exchange in St. Petersburg (one that would also link to OMV's Baumgarten physical hub) and are trying to gain experience through their participation in CEGH.

¶9. (SBU) Asked about South Stream, Auli painted it (like North Stream) as part of "Russia's dream" to develop new gas routes to Europe which circumvent Ukraine and Poland. Gazprom could live with Nabucco, Auli argued, but nevertheless will compete fiercely for Caspian gas to fill its own pipelines, to meet both domestic market demands and contractual obligations with Europe.

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COMMENT
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¶10. (SBU) Auli volunteered that he fully understood that the USG continues to be concerned about Gazprom participation in CEGH and (indirectly) the Baumgarten physical hub. He argued, as in the past, that these worries are not justified and he promised that OMV would welcome visits of USG experts at any time to discuss any further questions regarding hub operations.
GIRARD-DICARLO